Mapping it out

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Following a clear structure

- Once you have the questions you're trying to answer in mind, you can map out a route, like we did in the lemonade stand business:

- 1) We started with estimating foot traffic
  2) We looked at the likelihood of those folks actually stopping at a food or beverage stand
  3) We looked at the % of folks who stop that will end up buying
  4) We realized that some people buy more than one item.
  5) We looked at the top line revenue figures
  6) We took out the cost of goods sold
  7) We calculated gross profits

- By having this structure in your mind, it makes it easier to structure your model in the same way

- One of the benefits of mapping it out is it forces you to clarify your understanding of your business model

- In order for your model to work, you have to be as realistic as possible with the numbers you put in. You can’t do that unless you know your industry and your business model well enough

See you next lecture!